

# MATTERS REQUIRING BOARD ATTENTION

## USE OF THE SCHEDULE

Use this schedule in all Reports of Examination. The schedule is intended to address each matter requiring board attention with emphasis on brevity. The Examination Conclusions and Comments (ECC) page remains the primary vehicle to address material issues by providing facts and recommendations and documenting management's responses.

## COMMENT

Generally, this schedule will consist of one three-part comment with the following items:

1. A summary of the overall condition of the institution
2. "Bullet" points highlighting matters on the ECC page that require the directorate's attention. (Generally, the order of bullet points should correspond with ECC pages headings/titles).
3. A conclusion reminding the directorate of its responsibility to review the entire Report of Examination and reminding the directorate that each director must sign the Signature of Directors page

Other matters may be included on this page when deemed appropriate by the examiner and/or the Regional Office.

# EXAMINATION CONCLUSIONS AND COMMENTS

## PAGE 1

### PURPOSE

Although this schedule is intended to be read and analyzed by the institution's directorate, the Regional and Washington Offices of the FDIC, and the State supervisory authority, remember that the principal readership is the financial institution's board of directors. Viewed from this perspective, the schedule's basic goal is to inform the directors of undue risk. This schedule should enable directors to identify areas in which they are not fulfilling their responsibilities and encourage them to properly discharge their duties.

### GENERAL

This schedule summarizes the examination findings and serves as a guide for corrective action. Completion of this schedule is a final step in the examination process. A full understanding of the institution's overall condition is a prerequisite to its preparation.

Brevity and Clarity - Comments should be more of an "executive summary" than a detailed analysis, which is more appropriate on the core pages. Comments should be clear and brief. To achieve brevity, make reference to core and supplemental schedules which are pertinent to, and support in greater detail, the comments on this schedule. The examiner should not, however, go to the extreme of making the schedule merely an index of the Report's contents. While some repetition between this schedule and core page comments may be unavoidable, make every effort to minimize such duplication.

Order of Comments - List Examination Conclusions and Comments in order of importance.

Materiality - Present only material conclusions and comments here. In determining materiality, consider that any issue or matter discussed here will normally require both a need and a recommendation for some type of corrective action. Commenting upon matters not subject to criticism or recommendation in this schedule is not necessary, nor is lengthy discussion of relatively minor issues.

Comment Headings - To promote reader interest and improve readability, make individual comment headings/titles descriptive and informative.

Grammar and Usage - Comments should be grammatically correct, clearly written, and well organized. Proper paragraph structure, particularly the effective use of topic sentences, transitions, and conclusions, is essential. Simple language and short sentences are generally most effective.

Follow formal writing standards on this schedule. Generally, do not use abbreviations (including numbers). (For example, use \$17 million or \$17,000,000, not \$17MM).

## EXAMINATION CONCLUSIONS AND COMMENTS - PAGE 1 (continued)

Facts and Recommendations - Examination conclusions and comments should capsulize in a factual presentation the institution's problems, together with persuasive recommendations for corrective action.

Consistency - Comments should support and be consistent with the conclusions reached, the component and composite ratings assigned, and any corrective action recommended.

Appropriate Tone - Comments should be objective. Comments should not include opinions, generalizations, or undiplomatic charges. Proper presentation of factual information can be persuasive and will ordinarily be more effective than criticism. In all cases, refrain from using inflammatory words or phrases.

Management's Response - Each area of criticism should contain management's response to issues and/or examination recommendations. Present all corrective action taken, as well as any future action promised. Examination conclusions and comments should only include matters reviewed with management.

Use/Over-Use of Ratios - Do not rely upon ratios alone to convey ideas. When cited, ratios should support a comment, conclusion, or recommendation. The ratio's importance should be clear to the primary reader (that is, the directorate).

*Note:* Ratios or percentages are meaningful to examiners, but their significance is not always apparent to financial institution managers and particularly to financial institution directors.

Conduct of Specialty Examinations - Do not reference concurrent specialty examinations submitted under separate cover (Trust, Transfer Agent, Municipal/Government Securities Dealers, Electronic Data Processing, Compliance and Community Reinvestment Act) unless substantive comments are warranted. Likewise, do not reference concurrent specialty examinations included as part of the safety and soundness Report (Turnkey Electronic Data Processing, Bank Secrecy Act) here since their findings are discussed elsewhere in the Report. Nonetheless, bring forward any material comments.

Examiner's Signature Page - The examiner's signature should be on the last Examination Conclusions and Comments page.

Violations of Laws and Regulations - All apparent violations of laws and regulations and contraventions of Statements of Policy need not be referenced here. Discuss material violations and contraventions when warranted. Limit comments on those violations or contraventions to general statements since the infractions are detailed on the Violations of Laws and Regulations page. Comments may include brief remarks regarding the nature and extent of the violations, management's awareness and attitude toward applicable statutes and regulations, corrections effected during the examination, and future adherence.

# EXAMINATION CONCLUSIONS AND COMMENTS - PAGE 1 (continued)

## SPECIFIC COMMENTS

Examination Conclusions and Comments should include the following:

Uniform Financial Institution Composite Rating - At the top of the first page, disclose in numerical form the composite Uniform Financial Institution Ratings for the current examination and the previous two examinations. Since definitions of all five composite ratings are printed on the back of the Report front cover, it is unnecessary to include the definition here. Previous examination dates should correspond to those noted elsewhere in the Report. Identify state examinations with "S" following the date; designate other agency examinations with appropriate abbreviations listed in item #9 of the Summary Analysis of Examination Reports (SAER) instructions.

Enforcement Action - Include a summary of outstanding formal or informal action derived from the detailed analysis presented on the Compliance with Enforcement Actions page. In the case of an Order to Cease and Desist, the summary should also discuss the unsafe or unsound practices cited in the "Notice of Charges" which precipitated the enforcement action. Close with the examiner's opinion as to whether each of the practices or conditions has been discontinued or still exists. When applicable, this summary should be the first comment. However, the exact order should depend on its relative importance.

*Reminder: Only the FDIC's Board of Directors is authorized to make a finding of "unsafe or unsound banking practices." Therefore, do not use the statutory words "unsafe or unsound" in comments concerning management's practices. However, certain factual events allow examiners to note that an institution is in an unsafe and unsound condition. Synonyms and other descriptive terms such as "undesirable, unacceptable, or objectionable" are permissible when commenting on unsafe and unsound practices.*

Prompt Corrective Action - Present a summary of Prompt Corrective Action (PCA) provisions which is derived from the detailed analysis presented on the Compliance with Enforcement Actions page.

Disposition of Assets Classified Loss - When applicable, include a statement to the effect that all items classified Loss should be promptly charged-off or otherwise eliminated from the institution's books. Note the directorate's commitment (or lack of) to charge-off or eliminate assets. *Reminder:* When applicable, enforcement actions may dictate when such losses are to be eliminated from the books.

*Note:* Except in formal FDI Act Section 8 cases, make a request for the institution to charge-off a portion of loans classified Doubtful only when state law or policy requires. Moreover, the Regional Director must approve requests for the institution to charge-off any portion of securities classified Doubtful. Asset categories against which valuation reserves are not normally maintained require a judgement regarding a recommendation for chargeoff.

*Note:* Comments should not include recommendations regarding acquisition or disposition of specific assets.

Summary of Meeting With Management or Board of Directors - If a meeting with the institution's board of directors is held, make a concise presentation of the topics of discussion and management's commitments or responses. Discussion of specific management actions, commitments, or responses contained in preceding comments need not be repeated here. Include the date of the meeting and a listing of attendees. If no meeting with the board of directors is held, summarize the meeting held with senior management at the close of the examination. While this comment should generally follow all other ECC page comments, the order depends on its relative importance.

# COMPLIANCE WITH ENFORCEMENT ACTIONS - PAGE 1

## PURPOSE

Use this schedule to factually present an institution's adherence to formal and informal administrative actions and to Prompt Corrective Action provisions.

## WHEN TO INCLUDE

Include the schedule when an institution has one of the following outstanding actions:

### Formal Action

- Order to Cease and Desist
- Capital Directive
- Continuing Condition under Approval of Application, etc.
- Other formal administrative action of a state authority or other regulatory agency

### Informal Action

- Memorandum of Understanding
- Board Resolution
- Other informal administrative action of a state authority or other regulatory agency

*Note:* When an informal action is presented on this page, use a heading must at the top of the page identifying it as such.

Prompt Corrective Action - When applicable, address restrictions or requirements imposed through Prompt Corrective Action here as well as the institution's adherence to such restrictions or requirements.

## FORMAL ACTIONS

At the first examination after the issuance of a formal administrative action, the action should generally appear verbatim on this page. If the action is lengthy and no court action is contemplated, the action may be paraphrased should Regional Office practices permit.

Follow each provision with an "examiner assessment." Address each provision of the action, whether or not time limits have expired, documenting in each instance in a factual manner and without statement of opinion the steps taken by the institution to comply with the action. State if no steps to comply have been taken. Never use conclusory language such as "the institution is in compliance/partial compliance/substantial compliance/noncompliance with this provision." *Note:* Use bold print, indentation, or similar techniques to highlight the examiner's assessment portion.

At subsequent examinations, provisions of formal actions may be paraphrased or summarized. Address only those points of the action that the institution had not complied with at the previous examination, requirements of a continuing nature, and those on which the time limits had not previously expired. When all provisions have been met, and the only remaining provisions are those of a continuing nature having no expiration date, remarks may be limited to a short paragraph concerning the continuing requirements of the action.

*Note:* In all cases, carry forward a summary of the institution's adherence to any outstanding formal actions to the Examination Conclusions and Comments page.

# COMPLIANCE WITH ENFORCEMENT ACTIONS - PAGE 1 (continued)

## INFORMAL ACTIONS

Provisions of informal administrative action may be paraphrased or summarized on this page. Follow each provision with an "examiner assessment." At the first examination after the issuance of an informal action, address each provision of the action, whether or not time limits have expired, documenting in each instance in a factual manner and without statement of opinion the steps taken by the institution to comply with the action. State if no steps to comply have been taken. Never use conclusory language such as "the institution is in compliance/partial compliance/substantial compliance/noncompliance with this provision." *Note:* Use bold print, indentation, or similar techniques to highlight the examiner's assessment portion.

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*Note:* In all cases, carry forward a summary of the institution's adherence to any outstanding informal actions to the Examination Conclusions and Comments pages.

## PROMPT CORRECTIVE ACTION

When an institution is subject to Prompt Corrective Action (PCA), summarize the applicable provisions of PCA. Follow each provision with an "examiner assessment." Carry forward a summary of the institution's adherence with PCA requirements/restrictions to the Examination Conclusions and Comments page.